

Independent Rates Oversight Committee – IROC
November 16, 2009
M I N U T E S

1. **Roll Call**

Chairperson Billings called the meeting to order at 10:05 a.m. Monica Musaraca called the roll and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Donald Billings, Chair	X	
Tony Collins		X
Christopher Dull		X
Andy Hollingworth	X	
Jack Kubota	X	
Barry Newman		X
Jim Peugh	X	
Irene Stallard-Rodriguez		X
Todd Webster	X	
Gail Welch	X	
ExOfficios		
Scott Tulloch, Metro JPA		X
Ken Williams, City 10	X	

2. **Non-Agenda Public Comment**

There were no non-agenda public comments.

3. **Approval of Minutes from 10/12/09**

Chairperson Billings asked for a motion to approve the Minutes of October 12, 2009. Committee Member Peugh moved to approve with no corrections, Chair Billings seconded, with one abstention (Kubota) all were in favor.

4. **Chair Updates – Chairperson Billings**

- Thank you to Jim Fisher and Tom Crane for the opportunity to tour the Chollas Facility recently. The facility is definitely in need of replacement. City staff is in the process of putting together the financial justification and will be presenting to the IROC.
- Will have tour of the MOC Facilities immediately following the January 19, 2010 meeting. IROC members to add to their calendars if interested.
- Announced on behalf of Committee Member Newman, Barry Newman's resignation was submitted and a proclamation, in recognition of his numerous contributions, from the Mayor's office will be presented to him soon.

5. **City Staff Updates**

Jim Barrett, Public Utilities Department Director

- Recognized the Public Utilities Department being a recipient of the Gold Award for Exceptional Utility Performance by the Association of Metropolitan Water Agencies. He noted this is a national group, the

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awards are given for systematically applied effective utility management approaches to improve their products and services, increased community support and ensure strong and viable water systems long into the future. He added 5 years from now we can submit for the Platinum Award.

- Tomorrow there is a 218 Hearing at City Council on the water rate increase (Pass-through) caused by an increase in the cost of water at CWA and MWD. He noted there is no money that comes to the utility to cover its own operations and maintenance costs. IROC was briefed several times, and supported.
- Going to the Regional Water Quality Control Board hearing for the appeal of a \$620K fine for a sewer spill back in Aug 2007. There is a supplemental environmental project being developed to do water quality monitoring in the Lake Hodges/San Pasqual watershed area which will reduce the amount of the fine. Also, we are looking to understand why we are being charged a fine higher than the usual prevailing rate for a spill.
- In regard to the Coastal Commission language on the permit modification for Pt. Loma, they are seeking to have the City come back to explain the projects being developed through this cooperative Agreement with Coast Keeper and Surfrider. Staff has recommended this item come to the Commission within the next few months. The location will depend on the date.
- Last week the Local Resource Program incentive was approved for the Carlsbad Desal Plant. This incentive will provide up to \$250.00 per a/f for water actually delivered. There are conditions that could impact their ability to perform at Metropolitan.
- In regard to IPR there is a contract to be heard at City Council in December for the Program Management and Outreach. Also coming to Council will be the BUDG (Beneficial Use of Digester Gas) Contract. This is an arrangement worked out through a subcontractor to take the gas from the digesters and re use the gas. This gas can be cleaned sufficiently and introduced into SDG&E's natural gas pipeline in Pt. Loma and distributed through SDG&E's utility system.

Alex Ruiz, Assistant Director

- NR&C meeting was not held in November, however the October 20 Memos are provided in the packet. These cover the status of the IPR; updates on the rate recalibration and cost of service efforts on potable water (coming back to IROC in December); and conservation and water reuse restrictions.

Louis Generoso added a brief update on the water conservation effort. He reminded the IROC of the CWA requested 8% reduction goal for the City of San Diego for FY10. So far, the goal is being met, for October billed consumption it is 9.5%. He explained the process, and noted we are ahead of schedule and the customers are responding well to the call of reduce. He added there were approximately 3000 complaints for water waste, only

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39 were referred to Code Compliance Officers, and no citations carrying a fine were issued.

- Update on the Recycled Water Cost of Service Study, no details at this time. Awaiting study to be completed by Raftelis by the end of this calendar year which is on target.

Chairperson Billings asked if the IPR comments from Department of Public Health have been received. Ms. Steirer stated they have not yet been received, but is looking into it and should have an answer soon.

He asked Mr. Ruiz, in regard to the Water Conservation to date, what the cumulative fiscal year savings is to date with relation to the 8%? Mr. Ruiz stated we are at about 11,000 acre feet below cumulative year to date target. Chairperson Billings then asked Mr. Barrett in regard to the Desal Incentive, what it will cost and is MWD offering this? Mr. Barrett stated yes, the dollars are generated through a Water Stewardship Rate and part of what all Member Agencies pay for, when they purchase water from MWD, conservation incentives and payments out to local resource projects come from the generated sale of water. The estimated cost for the incentive payment is based on a calculation between what the production cost is as opposed as to what MWD is actually charging for water. He gave examples.

Committee Member Webster asked in regard to the complaints for water enforcement, what metrics are being used to help the City understand if the outreach program for conservation is being met? What have you learned from the percentage of customers not complying? Mr. Ruiz stated in few cases, some customers did not comply because they did not agree. However, when it was understood there would be citations as well as public records, the customer seemed to comply. Mostly, customers who were not complying did not understand what they were to do. Once physical contact was made, they understood and did comply quite rapidly. There are no data at this time to link outreach efforts with the number of complaints. Lastly, the outreach efforts are very effective and are being refreshed this month.

6. State Water Legislative Session Update

Brent Eidson, Policy Advisor from the Mayor's Office provided advance handouts in the packet. He stated, in early November the legislature passed a 5-bill package which included an \$11 billion bond measure. He provided background information stating the goal of the water package was to create and put into statute, goals for the San Joaquin Bay Delta by moving water supply reliability as well as eco- restoration. He referred to the handouts and briefly listed and explained all of the subject Senate Bills which includes: Senate Bill X7 1 – Public Resources, he stated this Bill establishes legal framework for Delta management that sets the "coequal goals" which is very important; Senate Bill X7 2 (Chapters 5,6,8,9 and 11) – Safe, Clean, and Reliable Drinking Water Supply Act (\$11.4B bond on the November 2010 Ballot) there are a number of funding

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opportunities for the region to apply with \$100M for local and regional water projects in San Diego County. He pointed out there is \$3Billion of continuous appropriation, meaning that once it gets approved as Legislation, they do not have to go back each year for funding; Senate Bill X7 6 – Groundwater, which establishes a groundwater monitoring program and authorizes responsibility for monitoring and reporting groundwater elevations; Senate Bill X7 7 – Water Conservation, the supplier has four methods for determining its target, which he listed; and Senate Bill X7 8 – Water Diversions which establishes reporting requirements for water diversions, requires all in-Delta diverters to record and report all diversions, imposes civil liabilities and penalties on individuals failing to file appropriate statements, and appropriates \$546M from Props. 84 and 1E.

He noted there is no mention of conveyance around or through the Delta because there is what is believed to existing authorization for that to occur. This was a political agreement through the Legislature that these co-equal goals be established that there be a Delta conservation plan that is in effect with measurements required in that plan that need to occur before conveyance can be begin even for environmental review. This package is important and paves the way for conveyance to occur.

Committee Member Peugh requested information regarding the Delta Commission's restoration goal. He stated he feels the governance of the Delta is just as important as the infrastructure. Mr. Eidson stated he would send some information to him. Committee Member Peugh asked if Groundwater would ever be regulated. Mr. Eidson stated this was one of the most contentious items, there are no regulations at this time but this is the first step. Committee Member Peugh then asked in regard to the available money, is there anticipation a significant amount will be allotted for moving ahead quicker with IPR? Mr. Eidson stated this has not been strategized as of yet.

Committee Member Welch asked if the SB X7 2 (slide 10) is in regard to the purple pipe program. If not, are there any other stimulus funds the Public Utilities Department has applied for use of the purple pipe. Mr. Eidson stated yes this is for the distribution system such as the purple pipe and yes, the Public Utilities Department has applied for recycled pipeline projects through stimulus funds but were unsuccessful.

Committee Member Webster asked if there was a comparison done with regard to allocation, with other large cities? Mr. Eidson stated there was not a comparative analysis done, but could get some information upon request.

Mr. Hollingworth asked Mr. Barrett how he feels the 20% conservation goal is going to impact us in terms of compliance, going forward. Mr. Barrett stated the goal is very near, as long as we can incorporate into lifestyle changes with those things customers are already doing.

7. Bid to Goal Program Update

Mr. Tom Crane, Assistant Director, provided a copy of the presentation and noted he will come before IROC for the next few months to give updates and/or seek approval. He started by stating the Bid to Goal Program (Program) is based on savings; incentivizing employees to save in the cost of operations. He reiterated, if there are no savings, there is no gainsharing. He then added the Program is not funded by the rate payers. He gave a brief history of the Program, and noted it is about to go to Council for approval, subject to receipt of the audit. The audit, which was directed by Audit Committee, should be concluded December 31st, and the results should be ready to be shared at the January IROC meeting.

Mr. Crane reminded the IROC of the goals set up for each section in each division. These goals are based on achieving efficiencies or improving operations. He stated the IROC will be informed every step of the way and will see the MOU before asked to recommend acceptance by the City Council. He then gave a description of the Private Market Proposal (PMP). A consultant is hired based on the statement of work. Elements of the PMP include using best industry practices; private market staffing models; industry developed methodologies; and cost assumptions. (PMP was provided to IROC)

He noted the MOU is a contract and is valid for 5 years once approved by City Council. It has private and public-sector features. He stated we are seeking retroactive approval due to all employees working toward these goals now without a contract. He then reviewed the accomplishments, pointing out the FY2008 audited financial results. He added the performance results are audited and all goals are not always met, whereas employees would not receive a full pay out. He noted the uses of savings listed in the handout, and concluded with stating we are attempting to get this Agreement in place retroactive to July 1, 2009. The Wastewater Agreement will be amended at the same time. Both Agreements will be identical, and eventually we want to have one Public Utilities Agreement..

Chairperson Billings asked how much is paid out in bonuses and annual leave. Mr. Crane stated he did not have the figures with him. Mr. Ruiz stated this information was included in a presentation to the Audit Committee, and will be made available.

8. Pt. Loma Methane Project

Mr. Tom Alsphaugh, Senior Mechanical Engineer, Public Utilities, provided a handout and gave a presentation outlining the benefits of the Digester Gas Project at the Pt. Loma Wastewater Treatment Plant and the South Bay Fuel Cell Project, at the South Bay Water Reclamation Plant. He noted a big change occurring is that the transportation system will change from compressed gas trucks to using an SDG&E natural gas transportation system to transport the gas to the fuel cells.

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He stated this Project began due to the abundance of available beneficial digester gas for use. This Project was approved by City Council in September 2007 and in August of 2009, SDGE “clarified” their Rule 30 to allow use of the transportation system. He touched on the emissions benefits comparison and went over diagrams of the site plan and architecture, showing what it will look like from the street view.

Mr. Alspaugh gave the history of the Peninsula community meetings held over the course of from June, 2007 to August, 2009 along with listing additional community publicly announced meetings held at the City’s offices such as the Metro Commission, Technical Advisory Committee, Natural Resources & Cultural Committee and City Council meetings over the past 2 years.

He referred to his slides, and summarized. He noted the Point Loma Wastewater Treatment Plant is not currently utilizing this available digester gas, restrictions prevented reasonable investment in its utilization so public Request for Qualifications for privatized options was issued. The Project team has worked to coordinate with the community at over 9 meetings as well as listing several articles in 3 newspapers. He added this innovative concept to transport the renewable digester gas to ultra clean fuel cells will clean the region’s air, reduce global warming, encourage these innovative technologies, provide the City over \$250,000 per year in revenues and will be an estimated \$78K per year in energy savings.

He then explained a diagram of the actual process as well as how all natural gas standards are to be met by SDG&E, and the added benefits and efficiencies of the project. Last, he listed the latest project summary where in June 2009 the California Commission approved and City Council approved BioFuels assignment; August 2009 SDG&E changed their requirements for pipeline injection; October 2009 BioFuels and SDG&E made a proposal to change the trucking concept to a pipeline delivery system; and the second amendment provides for SDG&E pipeline transportation. He noted the City of San Diego receives a flat fee of \$250,000 associated with the savings and capital costs.

Committee Member Hollingworth asked if any of the gas will be conveyed through the neighborhoods by the trucks and are there any risks of explosion? Mr. Alspaugh stated there would be no neighborhood transportations, it is all pipeline, and he cannot guarantee there will be no risks involved as it is natural gas; however, there are no safety issues with this process, and has never been any explosions in the past with this type of process that he can recall.

Committee Member Welch asked about the environmental credits associated with this project. Mr. Alspaugh explained on the Point Loma Wastewater Treatment Plant BUDG Fuel Cell, the City gets 75% of the credits and BioFuels gets 25%. There are some other very favorable arrangements made on the other sites as well. She then asked if the reason BioFuels is being used is because you were able to

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get some of the stimulus and incentive monies for the project? Mr. Alspaugh said this is part of it. BioFuels owns the facility, will receive grants from the State for the fuel cells and will receive the tax credits associated with the Project which have stimulus money in them. Committee Member Kubota commented that this Project is 5 years in the making and sees this as a very positive public/private partnership and commends the City staff. Chairperson Billings concurred.

9. Sub-Committee Reports

a. Finance – Subcommittee Chair Hollingworth

- Today's meeting discussed the expanded scope of the Finance Subcommittee by actively monitoring the County Water Authority and Metropolitan Water District costs and operations because of the recent pass through rate increases.
- Presentation on the Bid to Goal Program.
- Accepted the scope for this year's Annual Report, no changes.
- Adopted a special project for this year, which is looking at the possibilities of benchmarking Public Utilities Department, MWD and California Water District costs and operations to monitor them on an ongoing basis.

b. Environmental & Technical – Subcommittee Chair Peugh

- November 2 meeting discussed Submetering and Ms. Harris gave a presentation from Councilmember Emerald's office. Learned there will be submetering requirements on all new multi-family developments and major retrofits. HOA's are eager to have this.
- Discussed Wastewater Pre-treatment.
- Presentation on Automated Meter Reading, now moving out toward all residential meters. Originally was to reduce the cost of meter reading, now it is more toward cost, water conservation, detection of leaks, etc.
- Discussed the development of the IROC report.
- Agreed to move the Subcommittee meetings to the 2nd Monday of each month.

c. Public Outreach, Education & Customer Service – Subcommittee Chair Welch

- November 2 meeting received comprehensive overview of the water conservation outreach effort, which the City is very successful.
- Met with Barbara Sharatz, Pretreatment Program Manager, to discuss the "Do not flush" campaign and talk about the information available on the website. Hoping to bring back to the public.
- Discussed the IROC Annual Report, agreed to stay with the proposed format and are gathering our comments for the Report.
- Agreed to change the meeting dates to the 2nd Monday of each month to coincide with the Environmental and Technical Subcommittee.

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- Will keep the IPR public outreach, budget, and activities on the Agenda.

10. **Metro/JPA Report Out – Chairperson Billings**

No updates.

11. **UCAN's Offer to IROC for Use of Funding**

Chairperson Billings asked the Subcommittees to bring their discussion points back to the full IROC meeting, and tabled this item to the next IROC meeting of December 21, 2009.

12. **IROC Annual Report Discussion**

Chairperson Billings stated according the established calendar, a Draft Report is due to IROC next meeting of December 21. He asked the AdHoc Committee to get back to him with dates to meet within the next week either in person, phone or online.

13. **Proposed Agenda Items for Next IROC Meeting**

- UCAN's offer to IROC for use of funding

14. **IROC Members' Comments**

Please send items to Ernie Linares.

15. **City of Irvine Water Allocation Model Presentation**

Guest speaker Fiona Sanchez, Conservation Manager, Irvine Rancho Water District (IRWD) provided a presentation. She noted their service is 6 cities wide, covering approximately 20% of Orange County. She began with the history of the allocation-based rate structure. She stated because the fixed cost was tied with the commodity charges, there was an operating budget shortfall, which was not a good outcome. The Board asked staff to find a different way to handle this, which was to separate the fixed and operating costs to fund all variable costs of water supplies through a volumetric charge, and fund all other costs through a fixed monthly charge. The outcome was that reductions in revenue from declining water sales match reductions in water supply costs and fixed revenues remain unaffected, sufficient to meet budgeted operating needs.

She listed the rate structure objectives as revenue stability; equitable; based on supportable data; promote water use efficiency; keep it simple; easy to communicate and understand; and tied to cost of service. She stated it is to be fair and equitable being a partnership for success which is a win-win opportunity. She then briefly discussed the economic incentives for customers who make behavioral changes. Ms. Sanchez went over the "keeping it simple" defaults for residential base allocations, indoor (4 person household) allocations, landscape allocations, as well as comparing outdoor allocations (provided in handout). She gave examples of how over the years the allocations changed due to customer changes (i.e. having wall to wall turf, drip systems, now warm season turf).

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She showed the ET data sources historically. She noted IRWD has 3 climate zones and maintains its own weather stations, and gave information on spatial ET free data. She explained with commercial, industrial and institutional allocations, three years of data (month by month) are analyzed then customers are contacted that have unusual water use/patterns. Surveys are then conducted and allocations are created. Commercial allocations are site specific based upon historic use, equipment, number of employees and landscaped areas. She noted allocations can be customized. She then showed examples of how the rate structure looks on a typical residential bill, as well as sample residential water billing with overuse.

Committee Member Welch asked the protocol for rate structures related to restaurants and businesses who may increase their use due to more customers, or who may have a cooling tower, for example? Ms. Sanchez stated on reclaimed water, it is a 10% discount for landscape irrigation and for a business using recycled water or year-round use they would get the 40% discount due to seasonal issue. She gave examples and added these businesses will generally contact them when the bill is considerably larger and after study, the allocation can be modified, same scenario for cooling towers.

Committee Member Peugh asked if any other agencies have attempted to adopt your regulation whole sale and if so, how transferrable were they? Ms. Sanchez stated the City of San Juan Capistrano has a rate structure very similar they have adopted in 1991 also, and has been very successful. Most recently, Eastern Municipal Water District has implemented it as well as a couple of others she is familiar with, which seem successful so far.

Chairperson Billing commented he is uncertain if the new Rate Model can accommodate running this type of structure through it to see the impacts to Department revenues. He asked Ernie Linares to ask Rod Greek.

Tom Zeleny, Deputy City Attorney, asked for clarification on the “Low Volume” discount listed on slide 19, and if customers are actually charged less than what it costs to provide the service? Ms. Sanchez concurred, and added the shortfall in revenue is made up from the overuse tiers.

Ms. Sanchez then described some of their practices such as on-site surveys, adjustment policies which include leak adjustments, dedicated landscape policies, variance and courtesy adjustments. She then went over the rate structure financials and implementation results. She stated the outcome has been very happy customers (93% customer satisfaction) who understand the rate structure, there is revenue stability, and are able to fund their demand management programs for conservation and recycled water through the overuse and waste penalty tiers.

Committee Member Kubota asked as far as the total water sales, what portion of it is recycled water? She stated approximately 20%.

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Committee Member Webster asked in regard to the typical residential fixed charges, is there a variance for a household single residence for example, who only have 1 or 2 persons compared to the default of 4 persons you use? She stated no because the fixed costs are based on other factors as well such as reading the meter, billing costs, supply of water to the home, etc. which the fixed costs are separate from the variable commodity costs.

Committee Member Peugh asked how the maintenance and infrastructure are paid for and if they are paid by rate payers. Ms. Sanchez stated it is covered by the Capital Programs which is separate. This is paid for through service connection fees, developer fees and bonds. Committee Member Kubota asked if the Capital facilities are funded separately, what fund takes care of the bond payments? She stated she does not have that answer, it would be directed to the finance department. She knows there is a small portion from property taxes. She would be glad to follow up with the information.

Chairperson Billings asked if she could provide some information on the transition from a current rate structure to this type of rate structure. With some people seeing higher bills and some seeing lower bills, would think this could raise flags during the transition. She stated this can be a concern, but when they did this transition with 14,000 accounts, they were very careful to make it a smooth transition by doing plenty of public outreach ahead of time. Committee Member Peugh asked what this type of transition costs. Ms. Sanchez stated she does not have this information with her but will speak with the Finance Department and get the information. She added it was handled with internal staff and 6 temporary employees to help with customer outreach.

Adjournment of IROC

At 1:18 Chairperson Billings motioned to adjourn, all were in favor, the meeting was adjourned.

Recording Secretary: _____
Monica Musaraca